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SIPDIS

STATE FOR WHA/CAN, EB/ESC/ISC/ EB/EPPD

USDOE FOR IA (DEVITO, PUMPHREY, DEUTSCH)

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TAGS: [ENRG](#) [EPET](#) [ETRD](#) [PGOV](#) [CA](#)

SUBJECT: USDOE OFFICIALS LEARN ALBERTA OILPATCH DOES ALL IT CAN TO ASSIST HURRICANE STRICKEN STATES

REF: CALGARY 248 AND PREVIOUS

1. (SBU) Summary: Calgary welcomed USDOE officials Mr. Gary Ward, Director, American Affairs, and Ms. Kathleen Deutsch, Senior Analyst, American Affairs, to Calgary September 27 - 30, 2005. In addition to presenting a speech at the Far North Oil and Gas Conference and touring northern Alberta's massive oilsands operations (hosted by Syncrude), Mr. Ward and Ms. Deutsch participated in a series of Alberta Government and oilpatch meetings that provided updates of Alberta's efforts aimed at ramping up oil and gas production in light of hurricanes Katrina and Rita, as well as briefings on other current Canadian energy issues, notably the proposed Mackenzie Valley pipeline. During their visit, the USDOE officials met with the Alberta Government, the Canadian Association of Petroleum Producers (CAPP), the University of Calgary, Imperial Oil, ConocoPhillips, TransCanada Corp., the Canadian Energy Research Institute (CERI), Petro-Canada, EnCana, and Devon Corporation. Highlights of the meetings follow. Pol/Econ Assistant accompanied Ward and Deutsch to all meetings and Vice Consul Pidgeon participated in the Syncrude oilsands tour. End summary.

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Alberta Temporarily Suspends Rate Limitations In Light of Hurricane Katrina and Rita  
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2. (SBU) In the aftermath of hurricanes Katrina and Rita, many of our interlocutors addressed the ability of Alberta producers to increase oil and natural gas production, and all agreed that the industry and the provincial government are doing all they can. In September, and for the first time in its history, the Alberta Energy and Utilities Board (EUB) temporarily suspended its Maximum Rate Limitations (MRL) systems allowing for an additional 18,000 - 30,000 barrels of oil production per day (Calgary 515). Joe Miller, Executive Director of Policy Planning and External Relations for Alberta Energy, told us that the same is being done for natural gas production. Miller and Greg Stringham, VP of Marks and Fiscal Policy for the Canadian Association of Petroleum Producers (CAPP) stated that the industry is running full out, and everything that can be done by the EUB to expedite and streamline applications and allow for increased production is being done. For example, in addition to temporary suspension of the MRL, other measures include efficient approval of co-mingling gas production; temporary suspension of gas removal permits and export licenses; and efficient processing of down-spacing and coalbed methane applications. Stringham stated that, even with these measures, natural gas output will only amount to approximately one half bcf/day, and will not come close to replacing the three bcf/day that was taken out by the hurricanes.

3. (SBU) Alberta Energy's Miller also addressed the lack of refining capacity in North America. He stated that there is "much talk" about expanding refining capacity within Alberta under the Hydrocarbon Upgrading Task Force (HUTF), which was established in 2004 to produce an action plan for achieving maximum upgrading of Alberta's bitumen resources. The HUTF, comprised of 75 industry participants (including chemical companies), most recently held a strategic planning workshop in June 2005. Oilpatch officials such as Henry Sykes of ConocoPhillips, however, acknowledge that the Alberta Government would like to see refining investment take place in the province, but he pointed out that ConocoPhillips has an integrated heavy oil team in Canada and the U.S., and has no plans to refine in Alberta. Sykes noted that ConocoPhillips prefers incremental investments in U.S. refineries.

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Alberta Energy Flexes Its Muscles  
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4. (SBU) Alberta Energy's Miller noted the visit of Mexican President Vicente Fox to Calgary on September 29, adding that the province is trying to get a draft MOU signed with the country. Acknowledging that MOU's often provide little more than a gentleman's handshake to be open to more deals, Miller said it was a step in the right direction, adding that Alberta

had also recently signed an MOU with India. When asked how the Canadian federal government reacts to the province signing province-to-federal government agreements, Miller stated that the Canadian federal government recognizes that Alberta has jurisdiction over its natural resources. Miller, who has long lamented over provincial exclusion at federal level energy meetings, said the federal government has a tendency to promise things at the national level to other countries that it cannot deliver without provincial agreement. Miller added that there is "not much movement" in Canada politically at this point (read: Mackenzie Valley pipeline). He said the GOC has an interim energy minister, and the deputy minister seems enthusiastic, but not much will happen until the next federal election, expected sometime in early 2006.

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CAPP Pleased Interim Energy Minister Will Not/Not Link Energy to Trade Disputes  
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15. (SBU) Greg Stringham, Vice President of Markets and Fiscal Policy for the Canadian Association of Petroleum Producers (CAPP), provided a thorough briefing of Canadian energy issues. Stringham, who stated that he had had an "excellent" breakfast meeting with interim federal Energy Minister John McCallum, said he was particularly pleased that the new minister said energy would "not" repeat "not" be linked to other Canada-U.S. trade disputes. In light of those trade disputes, Stringham noted that there is a general desire to move away from the U.S. market and diversify into other areas. Stringham has long said that, because energy works so well, it should be used as a model, not a tool in resolving trade disputes.

16. (SBU) Stringham continued with his briefing noting the changes in the industry that have taken place over the last decade. While producers in the U.S. initially expressed concern that Canadian production might flood their market, now, 10 years later, they are calling for Canada to "bring it on". Stringham, who said that natural gas exports to the U.S. have essentially tripled in the last 10 years, pointed out that there are currently 700 rigs active in Canada, up from 400 about a year ago. He added that CAPP forecasts 24,500 wells would be drilled in Canada in 2006, 17,000 of which would be natural gas. Stringham stated that, for as often as he gets to Washington (about 8 times per year), there continues to be officials "on the hill" who remain unaware that Canada is the largest supplier of energy to the United States. He emphasized that Canada is the world's third largest natural gas producer and the world's ninth largest crude oil producer and, by 2015, Canada will move from ninth place to fifth place in production as a result of oilsands production. Other key items noted by Stringham include: oilsands production, which now exceeds one million barrels per day, is forecast to reach 2.7 million barrels per day by 2015; the amount of natural gas used to produce oilsands has decreased over the last 10 years as a result of new technologies; and coal-bed methane wells drilled in Western Canada will rise to some 6,000 by 2010, up from about 3,000 in 2005.

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Aboriginal Benefits Agreements Continue to Delay Mackenzie Valley Pipeline  
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17. (SBU) Imperial Oil officials provided a status review of the proposed C\$7.7 billion Mackenzie Valley Gas Project, a 1900-kilometre, natural gas pipeline aimed at delivering some 1.2 billion cubic feet (bcf) per day from Inuvik in the Northwest Territories to northern Alberta and markets beyond. Imperial leads the Producers Group (PG), which includes ConocoPhillips, Shell Canada, ExxonMobil, and the Aboriginal Pipeline Group (APG). Sandy Martin, Imperial's Manager of Regulatory Affairs, noted that the biggest obstacle to the project, first proposed in 2000, is now socio-economic. Martin, who pointed out that the PG has spent C\$400 million on the proposal to date, echoed media reports that noted talks hit a wall in April this year as aboriginal groups located along the proposed pipeline route attempted to add taxes through the access and benefits negotiations. Their attempts failed as both the federal and territorial governments said the issue was a non-starter because none of the communities has the right to collect taxes until they first negotiate a pact with Ottawa to acquire self-government.

18. (SBU) Martin said the PG has offered a one-time payment to the aboriginal groups, and they would also receive C\$500 million from the federal government over 10 years to address socio-economic issues in the region, but only if the project moves forward. Martin added that, while more time is warranted to address remaining issues, the PG hopes to announce in November whether it will proceed to public hearings in 2006. Martin said it is not necessary to have access and benefits agreements

secured for that to happen, and also suggested that unanimous support from all of the aboriginal groups is not necessary. Martin added that frustration among members of the PG is at an all time high and they may be reaching a point where the group might walk away from the project. Most oilpatch officials we met with expressed similar sentiments, notably ConocoPhillips President Henry Sykes, who added that his company would not hesitate to pull out of the project if benefits agreements with the aboriginal groups are not resolved before the end of the year. Sykes added that, despite some recent media reports that suggest negotiations might be moving along favorably, Sykes stated it was "news to him".

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Alaska Natural Gas Pipeline - TCPL Still Claims Route Exclusivity  
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9. (SBU) Little was said of the proposed Alaska Natural Gas Pipeline during any of our meetings. It appeared that those directly involved in the project with whom we met (ConocoPhillips) had nothing to offer with respect to when a decision on the pipeline will be made, given several outstanding issues including fiscal arrangements with the State of Alaska, and a yet to be defined regulatory process in Canada that will address whether the Canadian portion falls under the auspices of the Northern Pipeline Act (NPA) or Canada's national regulator, the National Energy Board (NEB). That said, at least one of our sources indicated that there is plenty of work for everyone to go around (read: not one single pipeline will be able to handle construction). Not surprisingly, during a brief meeting with TransCanada Corp. (TCPL), the company maintained its route exclusivity for the Canadian portion of the pipeline through the certificate it obtained some 25 years ago under the NPA.

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Devon to Re-enters Beaufort Sea with \$60 Million Well  
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10. (SBU) Devon Canada Corporation VP for Government Affairs, Michel Scott, described the company's operations as a "microcosm" of Alberta. Devon is involved in exploring for natural gas in deep, shallow, and conventional plays, and is the only independent active in Alberta's oilsands. Scott noted that Devon, which produces one bcf/day of natural gas and 200,000 bp/day of oil in Canada, said the company is not yet "big" into coalbed methane, but plans to put more money into general unconventional gas developments. One of the most significant projects on Devon's books is the company's return to the Beaufort Sea. Scott explained that the move is a "bit of an historic moment", in that it will be drilling the first offshore well in the region in 15 years.

11. (SBU) Scott explained that Devon positioned a steel drilling caisson (SDC) in 13 metres of water just north of the Mackenzie River Delta in the southern Beaufort Sea at the end of August. Scott, who referred to the apparatus as a submersible vessel, said it would remain there until winter freezes the vessel in place. (The SDC was originally built for Dome Petroleum in 1982 and valued at \$250-300 million in today's dollars; it had been mothballed in Alaska for a decade before EnCana Corp. refurbished it for an exploration well north of Prudhoe Bay in 2002-03. Put back into storage just off the Yukon coast, it was reactivated and towed 100 kilometres to the Paktoa well site in the Beaufort by a Russian icebreaker in August.) Scott, who said drilling is scheduled to begin in mid-December, said it is a gamble for Devon if the \$60 million well comes up dry. In that instance, Devon is likely to swallow its losses and abandon the Beaufort until a pipeline (read: Mackenzie) is a certainty. Scott said the company, which has already invested \$250 million since its four offshore licenses were acquired in 2000, is looking for a "large structure", pointing to significant onshore discoveries of close to three tcf, adding that the potential gas resource in the Beaufort is estimated at 55 tcf.

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Comment  
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12. (SBU) All meetings provided a valuable snapshot of how important and equally efficient the bilateral energy relationship is between Alberta and the United States. The efforts to which the provincial government and the industry are working to assist Louisiana in its time of crisis is just one example of the importance of the relationship. In the meantime, as the Canadian federal government continues to struggle with jurisdictional issues, the Alberta Government and its energy producers are clearly eager to ensure that this relationship continues with few impediments. That said, it may be too soon to tell whether or how much energy may be used as a link to other trade disputes (as PM Martin suggested in his speech to the Economic Club of New York on October 6), but we believe producers here will do whatever they can to prevent such

linkages from occurring and tainting what has become one of the healthiest sectors in our two-way trading relationship.

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